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GREAT NORTHERN GAS UTILITIES LTD.

ANNUAL REPORT 1968





Board of Directors

FERNAND E. CHENU
Brussels, Belgium

E. JACQUES COURTOIS, Q.C.
Montreal, Quebec

MARC H. DHAVERNAS
Montreal, Quebec

MICHAEL H. FINNELL
Calgary, Alberta

RAYMOND A. RICH
Philadelphia, Pennsylvania

ANTHONY C. ROONEY
Edmonton, Alberta

WILLIAM SPARK
Tulsa, Oklahoma

DAVID R. WILLIAMS, JR.
Tulsa, Oklahoma

JOHN H. WILLIAMS
Tulsa, Oklahoma

Officers

RAYMOND A. RICH

Chairman of the Board and Chief Executive Officer

ANTHONY C. ROONEY

President

ROBERT C. WHARTON

Vice-President, Operations

ERNEST W. STRAUS

Vice-President, Administration and
Secretary-Treasurer

Subsidiary Companies

Plains-Western Gas & Electric Co. Ltd.
Operating in Alberta, British
Columbia and Yellowknife, N.W.T.

Rockgas Utilities Ltd.
Operating in British Columbia

Plains-Western Gas (Manitoba) Ltd.
Operating in Manitoba

Fort St. John Petroleums Ltd.
Operating in British Columbia and Alberta

Transfer Agents and Registrar

Montreal Trust Company,
Montreal, Toronto and Edmonton

Trustee for Debentures

Montreal Trust Company,
Montreal, Toronto and Edmonton

Head Office

1870 Elveden House, Calgary, Alberta



highlights

	1968	1967	1966	1965	1964
Customers at Year End					
Utility	25,774	23,654	24,302	22,359	20,983
Other	—	25,518	23,031	23,569	23,161
Natural Gas Sales (Mcf)	10,525,718	8,384,447	6,267,402	5,827,574	4,980,469
Propane (Gallons)	11,669,659	24,865,735	23,774,336	20,311,593	15,544,642
Electricity (KWH)	17,080,792	13,737,895	11,297,812	10,603,028	9,813,075
Operating Revenue	\$ 8,757,703	\$12,014,753	\$10,894,582	\$ 9,690,549	\$ 8,202,273
Other Income	\$ 931,035	\$ 240,711	\$ 167,337	\$ 178,713	\$ 122,253
Cash Flow	\$ 1,934,668	\$ 2,146,588	\$ 1,910,257	\$ 1,744,534	\$ 1,516,818
Net Income	\$ 1,244,204	\$ 1,070,344	\$ 971,044	\$ 909,611	\$ 782,878
Working Capital					
(Exclusive of bank borrowings)	\$ 6,828,879	\$ 8,015,380	\$ 3,326,234	\$ 1,190,014	\$ 1,051,172
Long Term Debt					
(Inclusive of bank borrowings)	\$13,022,793	\$12,756,625	\$10,837,437	\$10,997,250	\$ 9,279,605
Annual Additions to Plant					
Utility	\$ 3,565,414	\$ 1,544,007	\$ 1,297,522	\$ 894,424	\$ 1,277,788
Other	\$ 3,203,708	\$ 1,049,544	\$ 1,243,208	\$ 1,424,375	\$ 853,540
Gross Plant					
Utility	\$18,294,141	\$14,868,190	\$15,800,175	\$14,589,455	\$13,783,576
Other	\$ 2,891,395	\$ 9,647,882	\$ 8,778,603	\$ 8,487,625	\$ 7,088,114
Miles of Pipeline (Transmission and Distribution)	1,688	1,097	1,006	937	898



Head office of Plains Western Gas and Electric Co. Ltd. in Edmonton, Alta. serving divisions in Alberta, British Columbia and Yellowknife, N.W.T.

Installation of natural gas mains by Plains Western Gas (Manitoba) Ltd. in Brandon, Man. to serve a housing development.





To the Shareholders:

The year 1968 was one of increased profitability and change for the Company, with net income before extraordinary items increasing to a record high of \$1,244,204; 16.2% greater than the year 1967.

The operating revenues for 1968 and 1967 are not comparable because of the changes outlined below. However, utility revenues increased by 16.8% over the preceding year and other income increased 287%, due primarily to the interest from short term investments and the income debentures of Rockgas Propane Ltd. Volumes of natural gas and electricity reached new highs, being 25% greater than 1967, resulting in the increased utility revenues referred to above, amounting to \$5,592,804. We are pleased with the results obtained for the year, having in mind the pressure on operating costs particularly due to increased labour and services. Management has continued to provide excellent service to its customers and maintain maximum efficiency and at the same time it has taken all reasonable means to control expenses.

Working capital at the end of the year, exclusive of bank loans and bankers acceptances was \$6,828,879 compared to \$8,015,380 at the end of the preceding year. The principal sources of funds were \$1,934,668 from operations and \$780,000 from bank

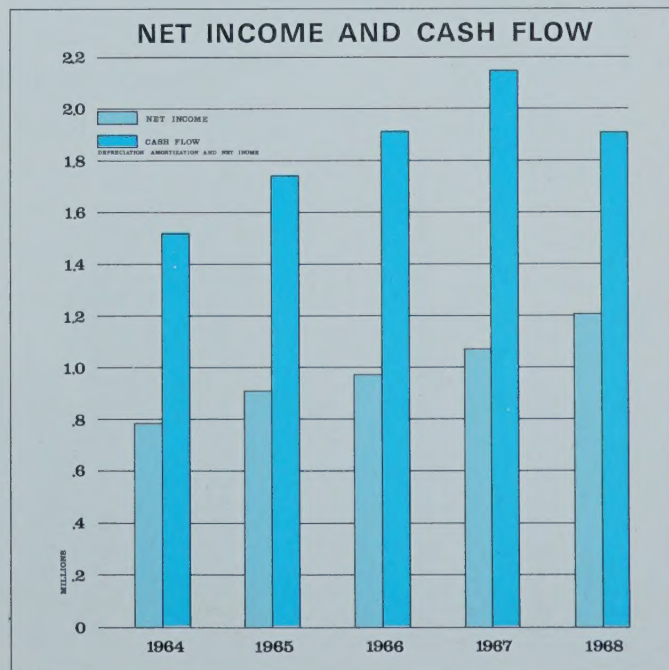
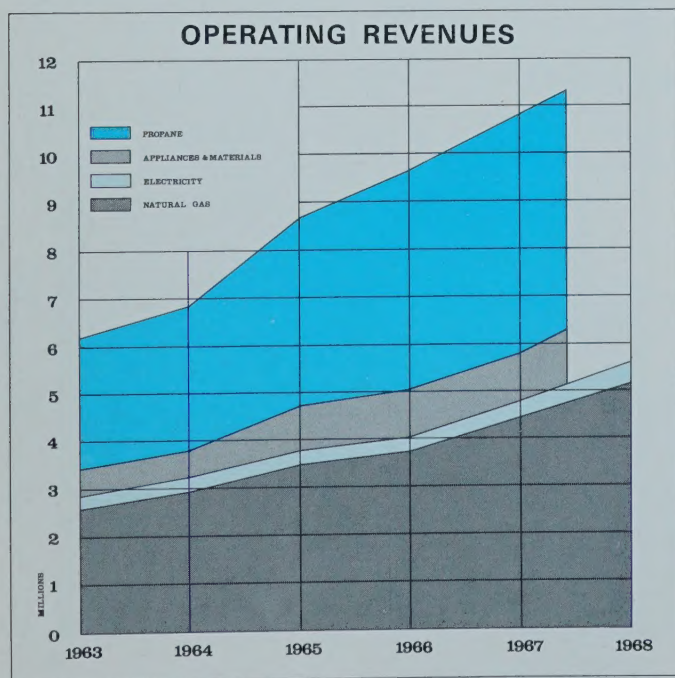
borrowings. On January 28, 1969, the Company sold a \$4,000,000 (U.S.) 20 year note at 7¼% interest and on the same day all bank indebtedness was repaid.

Rockgas Propane Ltd.

During the year all propane operations of the subsidiary companies were consolidated in Rockgas Propane Ltd. and on June 1st, all the outstanding shares of that company were sold at cost to an affiliate, Canadian Propane Consolidated Limited. The Company retained an interest in this operation by way of 7¾% secured income debentures of Rockgas Propane Ltd. in the principal amount of \$7,040,000.00 payable on demand. On December 27, 1968, \$1,790,000.00 principal amount of these debentures were repaid so that at the year end the Company held as an investment \$5,250,000.00 of such debentures.

Fort St. John Petroleums Ltd.

On December 27, 1968 the proceeds from the repayment of the aforementioned income debentures were used to purchase from Canadian Hydrocarbons Limited, the parent company, 1,498,843 common shares and a convertible note in the principal amount of \$300,868 of Fort St. John Petroleums Ltd. for \$1,744,461, which was the cost of these securities to Canadian Hydrocarbons. On the same date, the note was converted to 300,868 shares



of Fort St. John Petroleums Ltd. At the year end the Company held 1,799,711 shares, approximately 54% of the outstanding common shares of that company. The assets and liabilities of Fort St. John are consolidated with those of the Company in the consolidated balance sheet as at December 31, 1968. No portion of the net earnings was taken up in the income statement for the year ended that date.

The principal assets of this company are oil and gas rights in the Provinces of British Columbia and Alberta, 92% interest in the outstanding common shares of Vancouver Island Gas Company Limited (Vigas) and a recently acquired 100% interest in Island Propane Ltd.

Vigas operates a butane-air mixed gas distribution system in and about the City of Nanaimo, B.C. under a certificate of Public Convenience and Necessity granted under the Public Utilities Act of British Columbia. This company during 1967 and 1968 has made significant increases in volumes of gas sold and in the number of customers served. The rate growth of Nanaimo is amongst the highest in the country. During 1969, the Company will make application to the Public Utilities Commission of British Columbia for certificates of Public Convenience and Necessity to serve other principal communities on Vancouver Island. Initially it is proposed that these utilities be served with piped propane or butane and be converted to natural gas at a later date when that commodity becomes available on the island.

Island Propane Ltd. purchased the operations of Rockgas Propane Ltd. located on Vancouver Island in September 1968. The administration of these op-

erations has been integrated with that of Vigas. The propane branches are located principally in communities for which certificates of Public Convenience and Necessity will be applied for. If and when such certificates are granted the respective operations will be complementary.

Sinking and Purchase Fund

\$106,500 principal amount of the Company's debentures and 2,300 of the Company's Series A preferred shares were purchased on the security market with respect to the sinking fund for the outstanding debentures and the purchase fund for the outstanding preferred shares respectively.

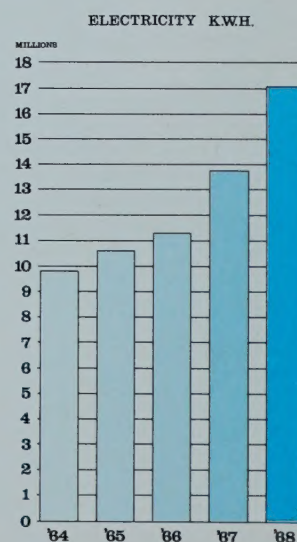
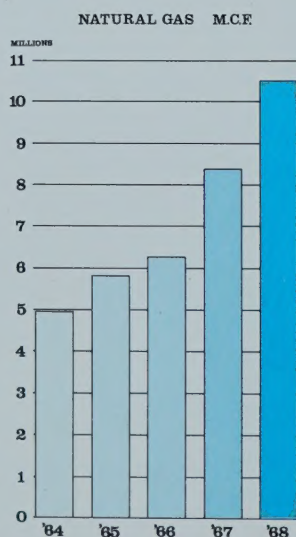
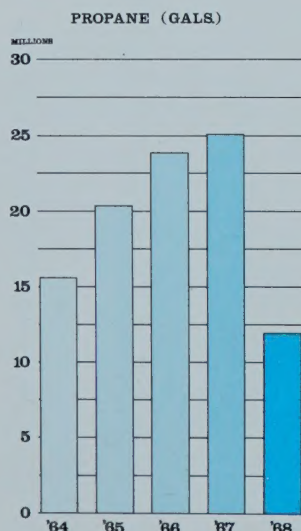
Marketing

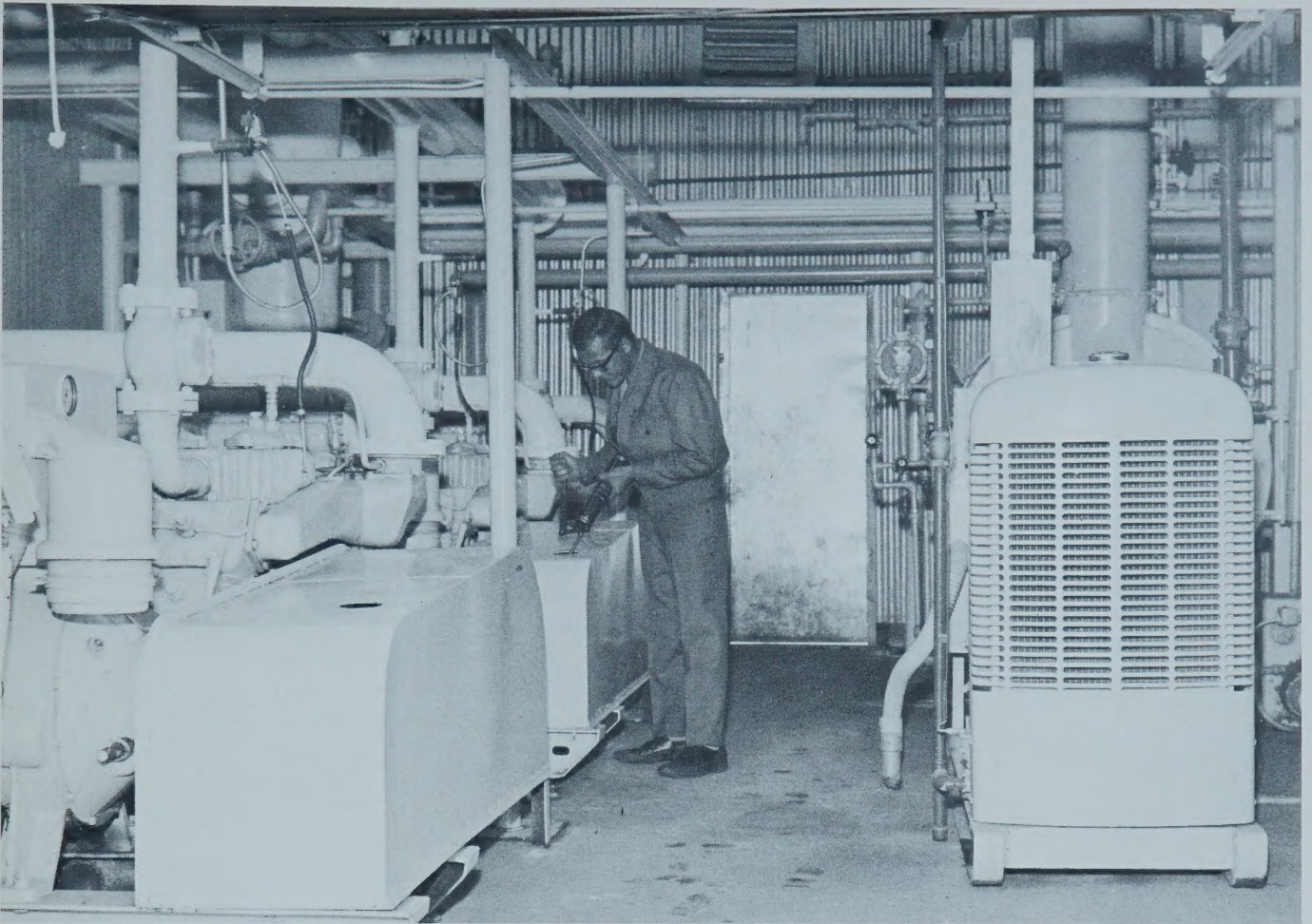
We continue to attach almost 100% of the new construction in the natural gas distribution areas of the Company. During 1968 residential construction was less than had been expected, however this was offset by the conversion to gas from other fuels of a number of residential and large commercial customers.

In the Province of Alberta, the rural gasification program has exceeded expectations with the addition of 900 farm customers since this program attached the first customers in the fall of 1967. In addition a number of towns and hamlets adjacent to these farm areas has also increased the potential market and the attachment of gas customers.

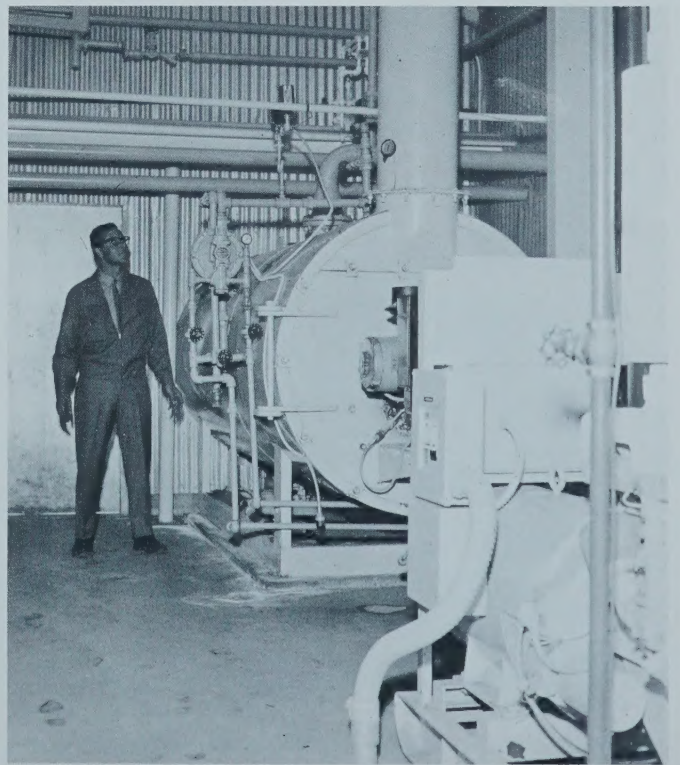
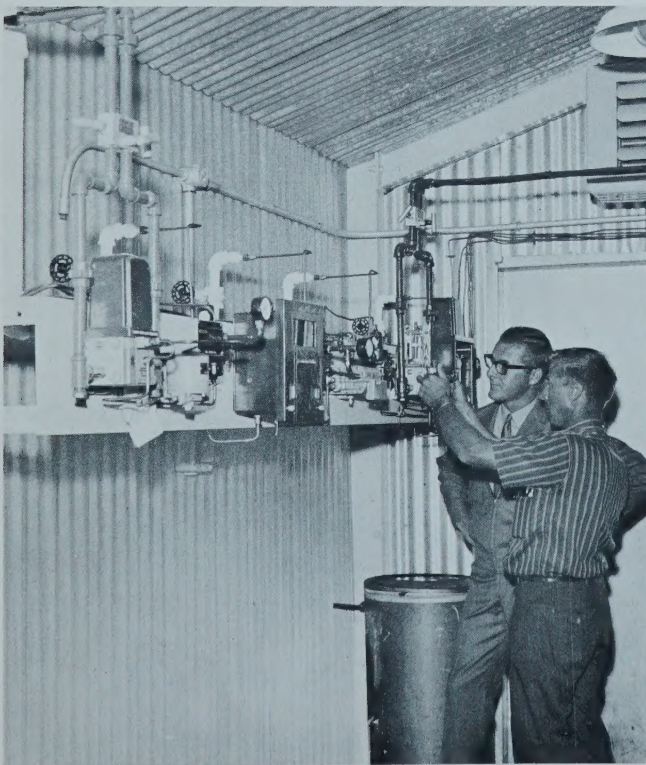
The attachment of new customers in Yellowknife, N.W.T. was more than had been projected for 1968 and there is every indication that the growth in numbers of customers will continue for some time in the future.

UNIT VOLUMES OF SALES





Views of control, boiler and compressor areas of the propane-air plant used for peak shaving and stand-by in Brandon and South Eastern Manitoba.



Supply

The natural gas and electricity supply remains relatively unchanged with natural gas requirements being purchased from pipeline companies, producers at the well head and gathering systems. Electricity is purchased from Northern Canada Power Commission for the requirements in Yellowknife.

Capital Expenditures

During 1968 the Company has undertaken and completed, in terms of miles of pipe and capital outlay, the largest construction program in the history of the Company. This included 63 miles of high pressure transmission line, 14 miles of distribution pipe, 1,700 service lines and 458 miles of plastic lines. The transmission facilities were required to provide additional capacity to serve the growing requirements of St. Paul, Alberta, Fort St. John, B.C. and in South East Manitoba, to serve a large new industrial load in Brandon. The plastic lines were installed to expand the rural systems initiated in 1967 and the addition of five new rural areas in the Company's existing service area. In Yellowknife, the system was expanded and improved to provide for the accelerated growth taking place in that town.

Future

Capital expenditures for 1969 are projected at \$2,000,000, principally for natural gas operations in the Provinces of Alberta and Manitoba.

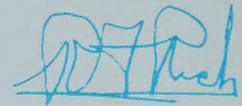
In Alberta, the present plastic systems will be expanded and normal additions will occur in the

towns presently served. It is anticipated that the Company will install 350 miles of plastic pipe in Alberta which will extend our services into 4 more areas. The Company has also agreed to purchase a small existing natural gas utility operations in south eastern Alberta. Subsequent to the year end the Company has been granted the franchise for the new town of Grande Cache in Northern Alberta, created to serve the coal mining operation established to mine and export coal to Japan. There is every indication that other major industries will be served by this town. These new areas will add to the Company's total potential market in Alberta. With the initiation of gas service to Grande Cache and the acquisition of utility operations in south eastern Alberta the Company's service area in Alberta has been greatly extended.

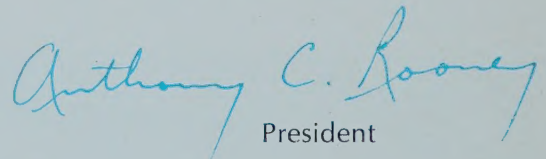
The capital expenditures in Manitoba will be for expansion of present systems and the construction of facilities in one town not now served.

The Company will continue to seek out opportunities for expansion and investment, especially in the utility and related fields.

On behalf of the directors, we express their sincere appreciation to the employees for their contributions to the service rendered our customers and the progress of the Company.

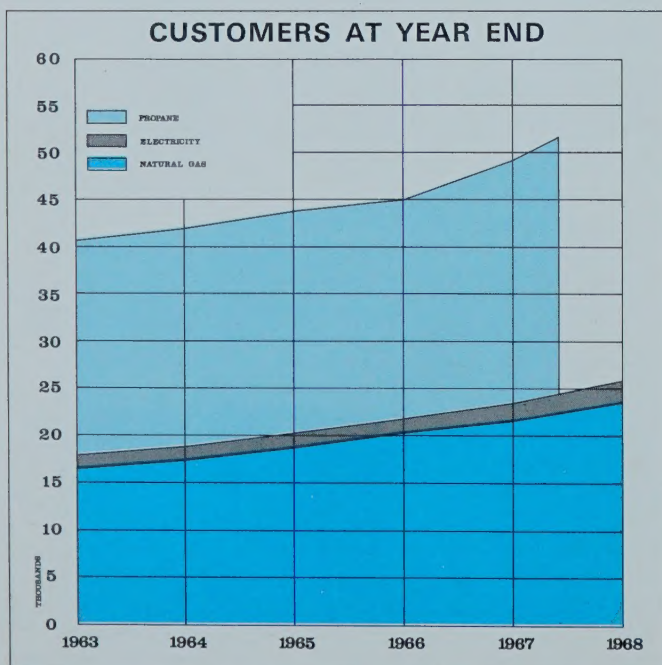


Chairman of the Board



Anthony C. Rooney
President

Edmonton, Alberta
April 23, 1969



consolidated statement of income and earned surplus

FOR THE YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	1968	1967
Revenue:		
Operating	\$ 8,757,703	\$12,014,753
Other (including investment income of \$722,825; 1967 – \$206,021)	931,035	240,711
	<u>9,688,738</u>	<u>12,255,464</u>
Expenses:		
Cost of sales	4,121,066	5,370,986
Operating, selling and administrative expenses	2,268,408	3,607,663
Interest (including interest on long-term debt of \$526,477; 1967 – \$535,730)	746,093	673,887
Depreciation and amortization	732,600	1,087,584
	<u>7,868,167</u>	<u>10,740,120</u>
Income before income taxes	1,820,571	1,515,344
Income taxes (Note 4)	576,367	445,000
Net income for the year	1,244,204	1,070,344
Extraordinary items:		
Gain on sale of properties	–	1,756,845
Recovery of development costs written off in prior years (write-off)	146,452	(146,452)
Net income for the year and extraordinary items	1,390,656	2,680,737
Earned surplus, beginning of year	3,456,030	1,416,818
	<u>4,846,686</u>	<u>4,097,555</u>
Dividends paid:		
Preferred	177,862	179,850
Common	633,825	461,675
	<u>811,687</u>	<u>641,525</u>
Earned surplus, end of year	<u>\$ 4,034,999</u>	<u>\$ 3,456,030</u>

The attached notes are an integral part of the financial statements.

consolidated balance sheet DECEMBER 31, 1968

(with comparative figures at December 31, 1967)

ASSETS

Properties – at cost:

Transmission lines, distribution systems, propane stations, service equipment, oil and gas properties, land, buildings, transportation equipment, franchises and gas contracts	\$21,185,536	\$24,516,072
Less accumulated depreciation and depletion	5,181,188	6,529,752
	<u>16,004,348</u>	<u>17,986,320</u>

Investments – at cost:

Marketable securities (quoted \$18,666; 1967 – \$15,860)	2,440	2,440
7¾% income debentures of affiliated company	5,250,000	–
Other	25,986	101,000
	<u>5,278,426</u>	<u>103,440</u>

Deferred receivables – leases	–	155,517
5% special refundable tax	<u>32,430</u>	<u>78,753</u>

Current assets:

Cash	61,782	251,650
Short-term investments	5,864,000	5,810,319
Accounts receivable –		
Trade	1,351,803	2,193,296
Other	260,143	423,344
Affiliated companies	146,712	–
Conditional sales agreements	35,590	113,543
Inventories of appliances and materials at lower of cost or net realizable value	468,506	995,512
Prepaid expenses	29,306	132,153
	<u>8,217,842</u>	<u>9,919,817</u>

Other:

Deferred charges	88,562	15,877
Cost of shares of subsidiaries over net book value at dates of purchase	272,329	–
	<u>360,891</u>	<u>15,877</u>
	<u>\$29,893,937</u>	<u>\$28,259,724</u>

LIABILITIES

	1968	1967
Shareholders' equity:		
Capital stock (Note 1) –		
Authorized:		
250,000 preferred shares of a par value		
of \$25 each, issuable in series		
5,000,000 common shares of no par value		
Outstanding:		
117,500 6% cumulative redeemable preferred shares,		
Series A (1967 – 119,800 shares)	\$ 2,937,500	\$ 2,995,000
3,130,000 common shares	6,034,970	6,034,970
Contributions in aid of construction	903,296	419,758
Earned surplus (Note 2)	4,034,999	3,456,030
	<u>13,910,765</u>	<u>12,905,758</u>
Minority interest in subsidiaries	1,330,026	–
Term debt (Note 3)	<u>9,037,793</u>	<u>8,851,625</u>
Deferred liabilities:		
Unearned lease income	5,820	431,733
Customers' refundable deposits	235,570	261,171
	<u>241,390</u>	<u>692,904</u>
Current liabilities:		
Bank loan (Note 5)	3,085,000	2,205,000
Bankers' acceptances (Note 5)	900,000	1,700,000
Accounts payable	741,339	1,440,917
Income taxes payable (Note 4)	329,905	188,122
Current instalments on term debt	35,000	15,813
Accrued interest	261,226	259,585
Due to parent company	21,493	–
	<u>5,373,963</u>	<u>5,809,437</u>
On behalf of the Board:		
R. A. Rich, Director		
Anthony C. Rooney, Director		
	<u>\$29,893,937</u>	<u>\$28,259,724</u>

consolidated statement of source and application of funds

FOR THE YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	1968	1967
Funds were provided from:		
Operations –		
Net income for the year	\$ 1,244,204	\$ 1,070,344
Add:		
Depreciation and amortization	732,600	1,087,584
Other non-cash income and expenses	(42,136)	(11,340)
Total cash flow from operations	1,934,668	2,146,588
Sale of properties	–	3,693,838
Customers' contributions in aid of construction	483,538	170,609
Sales and repayments of mortgages	–	94,271
5% special refundable tax	17,067	(23,753)
Sale of investments	101,000	–
Sale of investment in common shares of Rockgas Propane Ltd. ..	27,500	–
Repayment of 7¾% income debentures	1,790,000	–
Disposal of fixed assets	75,627	87,211
Other	42,154	33,760
	<u>4,471,554</u>	<u>6,202,524</u>
Funds were applied to:		
Investment in common shares of Fort St. John Petroleums Ltd. ...	1,774,461	–
Less working capital at date of acquisition	379,320	–
	<u>1,395,141</u>	<u>–</u>
Purchase fixed assets	2,647,388	2,593,551
Purchase preferred shares for cancellation	49,986	4,835
Repayment of term debt	100,700	92,987
Payment of dividends	811,687	641,525
Investments	–	100,000
Development costs	(145,595)	105,307
Other	–	14,428
	<u>4,859,307</u>	<u>3,552,633</u>
Reduction in working capital resulting from sale of propane operations	(387,753)	2,649,891
	<u>(878,748)</u>	<u>–</u>
Increase (decrease) in working capital	<u>\$ (1,266,501)</u>	<u>\$ 2,649,891</u>

notes to the consolidated financial statements DECEMBER 31, 1968

1. CAPITAL STOCK:

Preferred shares –

To December 31, 1968, 2,500 Series A preferred shares of an aggregate par value of \$62,500 have been redeemed (2,300 shares during 1968). Accordingly, earned surplus to December 31, 1968 includes \$62,500 designated as "capital surplus" under the provisions of the Canada Corporations Act.

The redemption provisions require the company to expend \$60,000 in each year, commencing with the year 1968, in the purchase for cancellation of Series A preferred shares, if available in the open market, at a price not exceeding \$24.50 per share plus costs of purchase. This requirement is cumulative to a maximum of \$120,000 in any year. In addition, the Series A preferred shares may be redeemed at any time at a price of \$26.25 per share plus accrued and unpaid dividends.

2. DIVIDENDS:

Provisions attaching to the Series A preferred shares and the borrowings referred to in Note 5 contain restrictions as to the declaration and payment of cash dividends.

3. TERM DEBT:

	1968	1967
6% sinking fund debentures, Series A due January 15, 1985	\$8,713,500	\$8,820,000
5½% notes payable	–	47,438
6% sinking fund bonds, Series A of Fort St. John Petroleums Ltd., due October 15, 1976, subject to annual sinking fund payments .	359,293	–
	9,072,793	8,867,438
Less current instalments shown as a current liability	35,000	15,813
	<u>\$9,037,793</u>	<u>\$8,851,625</u>

Under the provisions of the trust indenture payments to the sinking fund trustee are required so as to retire the 6% sinking fund debentures, Series A as follows:

	Annual retirement	Total to be retired
1970	\$ 73,500	\$ 73,500
1971 - 1974	180,000	720,000
1975 - 1978	270,000	1,080,000
1979 - 1982	360,000	1,440,000
1983 - 1984	450,000	900,000
		<u>\$4,213,500</u>

notes to the consolidated financial statements (continued)

4. INCOME TAXES:

The companies claim capital cost allowances for income tax purposes in excess of the related depreciation and depletion reflected in the accounts, and provide in their accounts only for the taxes payable on their taxable incomes for the year.

This accounting treatment differs from the tax allocation basis under which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed in current and prior years, net income for the year would have been reduced by \$105,000 (\$225,000 in 1967), and the cumulative amount of deferred tax credits to December 31, 1968 would have been \$1,022,000.

5. Subsequent to the year end the company borrowed \$4,000,000 (U.S.) at an interest rate of 7¼%, due January 15, 1989 with repayments commencing in 1971. These funds were used to retire bank indebtedness.

6. OTHER STATUTORY INFORMATION:

The total remuneration to the directors and senior officers of the company during 1968 amounted to \$132,908, including \$91,900 remuneration of directors as directors, officers or employees of the company.

auditors' report

To the Shareholders of
GREAT NORTHERN GAS UTILITIES LTD.:

We have examined the consolidated balance sheet of Great Northern Gas Utilities Ltd. and its subsidiary companies as at December 31, 1968 and consolidated statements of income and earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.
Chartered Accountants

February 24, 1969

